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## The Mexican Proposal for a Continent-Wide Debt Moratorium: Lessons from the 1930s, Contrasts with the 1980s

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## Introduction[1]

"Wall Street frightened by Mexican Moratorium Proposal." Headlines like this did not appear for the first time in August 1982 when finance Minister Jesus Silva Herzog arrived in Washington to announce that Mexico could not pay the debt payments due that year. In 1933 the Mexican Delegation at the International American Conference in Montevideo presented a background paper and proposed a wide ranging resolution to the debt crisis of that period which they hoped would challenge the "international superbankers" (which I label the "Mexican Initiative"). A return to that document indicates that many of the proposals on foreign debt for an equitable and proper resolution of the problem offered in the mid- to late 1980s were proposed, considered, and then ignored, well before 1982. Not surprisingly, the proposed solutions also bear a resemblance to those heard today.

Are there lessons to be learned from the debt crisis of the 1930s that may be relevant to the current crisis? In this paper I argue that there are substantial similarities between the crisis of the 1930s and the crisis of the 1980s. Solutions being proposed now were also proposed then. Latin American nations then, as now, generally recognized the obligation to pay, arguing temporary inability, not lack of desire.

But in 1933 Mexico was a leader of the movement for the declaration of a continent-wide moratorium, contrary to its relatively compliant pattern of behavior today. The structure of the debt-holding and the nature of debt-backing international institutions, I will also argue, represents a further dramatic difference. That difference may explain part of the difference in Mexico's

[1]I would like to thank Cynthia Wood, Ricardo Salvatore, Michael D. Robinson, and Michael E. Conroy for their helpful comments on various drafts of this paper. However, none of the above are responsibe for any errors or omissions that may have occurred.

position. It is clearly a difference that narrows the scope for Latin American intitiatives and conditions the prospects for successful resolution of the crisis.

The paper begins with a brief discussion of the international economic and debt situations in 1933, including the structure of the debt (one of the main differences with the current crisis). It then examines the Mexican debt situation since independence. The background paper written by Mexican foreign Ministry employee Sanchez Ponton is summarized, and Mexican foreign Minister Puig's presentation at the conference follows. The paper concludes with reaction to the proposal and analysis.

## The World Economic Situation in the Early 1930s

The worldwide Depression of the early 1930s worsened the structural deflation suffered by the primary product dependent economies from 1925-1929.[2] Excess supply resulting from world overproduction led to economy-wide deflation as each sector passed on the burden to other sectors. Domestic overproduction was dumped on the world market, depressing world prices. Exchange depreciation in early 1930 exacerbated deflationary pressure, as did increased protection in industrial country markets. The dollar price level fell by 25% between 1928-29 and 1932-33 decreasing export earnings and thus increasing the real cost of debt service.[3] As import quantities dropped, government tax revenue generated from import taxes declined. The long-term external debt to merchandise exports ratio for Latin America as a whole increased from 1.5 in 1929 to 2.3 in 1935.[4]

Exports declined in Latin America (and worldwide) as a result of lower economic activity in the industrial economies. As prices of commodities continued to fall, and with tight liquidity after the stock crash of September 1929, banks cut credit lines and refused to roll over outstanding loans both to commodity purchasers and producers in need of working capital. The downward spiral appears to have been worse for those countries exporting goods with high income elasticities. Chile's exports declined over 80% between 1928-29 and 1932-33. Bolivia,

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[2]For a discussion of structural deflation see pages 93-94 of Charles P. Kindleberger's The World in Depression, 1929-1939 (Berkeley: University of California Press, 1986).

[3]Carlos F. Diaz-Alejandro, "Latin America in the 1930s," Latin American in the 1930s (New York: St. Martin's Press, 1984), pp. 17-49, p. 20.

[4]Ibid., p. 26.

Cuba, Peru, and Salvador suffered a 70-75% decline in exports in the same period. Argentina, Guatemala, and Mexican exports decreased between 65% and 70%, while Brazil, the Dominican Republic, Haiti, and Nicaragua suffering a decline of 60-65%.[5] The purchasing power of exports for Argentina, Brazil, Chile, Colombia, Cuba, and Mexico (as a six country total) fell to 52% of their 1929 value by 1932.[6]

The 1930's Debt Crisis in Latin America

In December 1933, bonds totalling nearly one billion dollars were technically in default in Latin America. This number represented over half of the total US dollar bonds of $1.9 billion outstanding in the region.[7] Neither Latin American debtors nor creditors were pleased with the situation. Under the new Good Neighbor Policy of the Roosevelt Administration, military intervention by the United States was ruled out. Several securities holders' committees had been formed for specific countries, but no general American bondholders' commission existed. General commissions did exist in Europe, but as American economic influence grew in Latin America these did not completely represent the bondholders.

An American effort in Mexico led to the formation of the International Committee of Bankers on Mexico (ICBM) which first negotiated with the Mexican government for the rescheduling of bond payments in 1922. American bankers also renegotiated the Bolivian debt in 1922. These bankers' committees wielded significant power, and extracted strong conditions and concessions out of the debtor countries. The pledging of state revenues, such as customs house fees and natural resource earnings, was normal. Under the Bolivian agreement, no new debt could

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[5]Stephen G. Traintis, Cyclical Changes in Trade Balance of Countries Exporting Primary Products, 1927-1933, 1976, p. 19; as quoted Kindleberger, The World in Depression, 1929-1939, pp. 188-189.

[6]Angus Maddison, Two Crises: Latin America and Asia 1929-38 and 1973-83 (Paris: Development Centre of the Organisation for Economic Co-operation and Development, 1985), p. 87 (Table A-8).

[7]Section of Commercial Conferences, Pan American Union, "Latin American Foreign Debt Problems," Commercial Pan America, no. 19 (December 1933), pp. 1-2; Willy Feuerlein and Elizabeth Hannan, Dollars in Latin America, An Old Problem in a New Setting (New York: Council on Foreign Relations, 1941), p. 14. These default figures do not include Mexican bond payments as those had been renegotiated and they were not technically in default.

be contracted without the consent of the bankers. Obviously, other countries were not anxious to enter into these types of arrangements.[8]

The nature of the debt contributed to the difficulty in resolving the situation. Loans were arranged by investment banks through the issuance of bonds. These bonds were then sold to the public in the U.S., with the banks generally selling most of them off. Thus their interest lasted only until they transfered the obligation to others. They collected their fees for the issuance and sale and did not concern themselves with the repayment and retirement of the bonds. Latin American bonds issued in the 1920's yielded high rates of return (typically 6-8 %) in contrast with comparable domestic returns (in the 5% range).[9]

The defaults took many forms. Some countries, such as Uruguay, deposited the national currency equivalent of the payment in an account, and attempted to service the debt whenever dollars were available. Others, such as Bolivia, noted their intent to pay but cited lack of ability and simply stopped all payments. Most larger countries, such as Brazil and Columbia, issued internal funding bonds to cover interest payments, but the proceeds were usually insufficient to totally cover the contractual payments. Argentine national debt never went into default, although certain municipalities and provinces within Argentina did. Even the Dominican Republic, under U.S. protectorship, fell behind in sinking fund payments for a while.

The dollar bonds usually were contractually guaranteed in three regards: they would be repaid in dollars, the dollars would be of a certain gold value, and the payments would come from pledged revenues. When the U.S. abrogated the gold clause ensuring payment of U.S. bonds in gold dollars in June 1933, the rest of the world followed. The U.S. provided a strong defense for its "default": the right of a sovereign government to act in its national interest, and the right of the creditor to no more than the return of purchasing power equal to the amount he lent.

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[8]On Mexico see Edgar Turlington, Mexico and Her Foreign Creditors (New York: Columbia University Press, 1930) and Robert Freeman Smith, The United States and Mexico: Revolutionary Nationalism in Mexico, 1916-1932 (Chicago: The University of Chicago Press, 1977. On Bolivia see the Stifel-Nicolas Investment Company, Spencer Trask and Co., and Equitable Trust Company of New York's 30 July 1923 Memorandum and Margaret Alexander Marsh's The Bankers in Bolivia (New York: Vanguard Press, 1928).

[9]Study Group of Members of the Royal Institute of International Affairs, The Problem of International Investment 1937 (New York: Augusts M. Kelley, Bookseller, Reprints of Economic Classics, 1965), p. 170.

Although no outright repudiation occurred, the situation was critical. Yet no international settlement mechanism existed.

> In the U.S. a revolt against farm mortgages resulted from the collapse of farm prices. In the Latin American countries, there was not positive help for debtors in the shape of parity payments from an international AAA; no competant legal body existed which could declare moratoria or put sovereign states through bankruptcy proceedings. Lacking new loans to pay on old debts, default seemed the only way out. Moreover, just as government loans to American farmers and other forms of relief had a political as well as an economic aspect, so certain Latin American governments discovered that non-payment of their foreign debt was good political capital. The phrase "debt slavery" expressed the popular attitude toward foreign loans.[10]

The Seventh International American Conference, a Pan American Union sponsored event held every four years, was held in Montevideo in December 1933. The Mexican delegation hoped to add the topic of external debt and credit to the already established official agenda. Its efforts, labeled the Mexican Initiative, attracted considerable attention. Discussion of this Initiative will constitute the rest of this paper. first the background of Mexican debt will be presented, followed by the presentation of the Initiative and responses to it.

The Mexican Debt Situation

Mexico's record of payment on foreign debt was not good. After issuing its first loan in 1824, payments had already fallen behind schedule by 1827. for the next sixty years readjustment plan followed non-payment followed further readjustment plans. President Juarez in 1867 repudiated the loans contracted by Maximilian in 1864 and 1865 as well as the assignments of customs duties. By the time Profirio Diaz renegotiated the external debt and attempted to reorganize the financial structure in 1886, many defaults and partial repudiations had occurred.

With each new round of debt renegotiations, bondholders desired additional security for newly perceived increased risk and as compensation for lost revenues. Provisions for security of repayment through the pledge of customs duties and revenues were often included in the original loan documents, with specific customs houses or regions (such as those on the Gulf of

[10]Feuerlein and Hannan, Dollars in Latin America, An Old Problem in a New Setting, p. 23.

Mexico) cited. The early foreign creditors were predominantly British. When payments fell behind, bondholders appealed to their respective governments to protect their rights under the loan agreements. The British government's first response was that His Majesty's Government was not responsible at all for the situation and had no right to interfere in this private matter. The British officials in Mexico could do no more than offer their offices for proper representations made to the Mexican government by the bondholders themselves. In 1830 a Committee of Mexican Bondholders was organized in London. The Committee was more successful than the individual bondholders in eliciting support from the Government. After the Committee's first appeal to the British Government, the foreign Office instructed its representatives in Mexico to support the claims of these British subjects, and,

> ... authorized the British vice consuls at Veracruz and Tampico to undertake the duty of receiving from the Mexican authorities, and transmitting to England, such sums of money as might be set apart at the ports mentioned for the payment of the dividends due to the holders of the bonds.[11]

Thus began the long history of the attempts of bondholders' associations to influence their governments, with angry demands made by the bondholders and ambiguous instructions sent to the representatives of these governments in Mexico.

Bondholders organizations grew in influence as foreign lending increased worldwide. The Corporation of foreign Bondholders was formed London in 1868 and the Association Nationale des Porteurs francais de Valeurs Mobilieres was organized in Paris in 1899. Other smaller groups were formed as well, but these two represented the majority of the bondholders, with the Corporation of foreign Bondholders the most vocal and powerful both in negotiations with bondholders and influence on its government. Although the political and economic influence of the United States increased over the years, intensifying during WWI, an American bondholders association did not exist; neither did a Mexican specific committee.

Up until WWI, these bondholders organizations did not usually have close ties with their governments. In 1919, however, the governments of france, Great Britain, and the United States approved the organization of an International Committee of Bankers on Mexico (ICBM). Citizens

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[11]Edgar Turlington, <u>Mexico and Her Foreign Creditors</u>, p. 59.

of these countries owned over two-thirds of all government and railway bonds of Mexico.[12] The purpose of the ICBM was to study the Mexican situation to ascertain what policy would best assure timely servicing of bond payments. Its government backing and international nature allowed it to exert considerable influence on the Mexican government in its negotations.[13]

Internally at this time, Mexico was experiencing political upheaval. Porfirio Diaz had left a heavy debt burden and expenses for the struggle to overthrow him were added to the public debt by President Madero. Shortly after Victoriano Huerta ousted Madero, the Mexican government contracted a new loan for L16 million despite disagreement of the opposition Carranza party. The loan was a ten year maturity at 6%, signed on June 8, 1913. Lack of revenue domestically and unavailability of further foreign loans as a result of official American opposition forced Huerta to declare a suspension of debt service on both internal and external public debt on December 17, 1913. Mexico was then forced to utilize internal credit. This period lasted until 1921 when a new government, under the direction of Alvaro Obregon, issued a statement of intent to return to contracted payments and began earnest negotiations with the ICBM.

The ICBM-Mexico negotiations resulted in the de la Huerta-Lamont Agreement of June 16, 1922. Adolfo de la Huerta was Obregon's Minister of finance. Thomas W. Lamont was the chairman of the ICBM, and a representative of the powerful banking firm of J.P. Morgan & Co. The Agreement pledged the entire proceeds of the oil export tax, 10% of the gross revenues of the National Railways of Mexico (NRM -- whose guaranteed debt was included in the Agreement), and the entire net operating profits of NRM to the amortization fund. The Agreement also converted all external debt, some of which had been in pounds sterling, into dollar debt. Within a year of signing of the agreement, Mexico was once again not meeting its obligations. Over the next few years several further agreements were signed, with Mexico falling out of compliance shortly afterwards in each case. As a result of these ongoing negotiations, Mexico was accutely aware of the presence and influence of the foreign bankers.

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[12]Ibid., p. 12.

[13]The interesting conditions leading to the formation of the ICBM are told in Robert Freeman Smith's The United States and Mexico: Revolutionary Nationalism in Mexico, 1916-1932 (Chicago: The University of Chicago Press, 1969(?)).

These negotiations lasted long, with many members of the ICBM believing that the Mexican government could resume complete debt service payments if it were more frugal domestically. The following exchange between finance Minister de la Huerta and a french member of the committee not only reflects the differences between the sides in 1922, but also foreshadows similar debates in the 1980s:

> Mr. de la Huerta: Above all Mexico must live first. ... If a family is in financial straits bread and milk should be the first consideration and then after that will come the creditors.
>
> Mr. Chevalier: The remedy is to cut down expenses which are not essential.
>
> Mr. de la Huerta: That has already been done.
>
> Mr. Chevalier: What do you understand then by the phrase of "full recognition of contracts?"
>
> Mr. de la Huerta: The family has not failed to recognize the debts of the grocer.[14]

Background Study to the Initiative: Sanchez Ponton's Views on Debt

Under the auspices of the Ministry of foreign Relations, Luis Sanchez Ponton wrote Las Deudas Exteriores: Principios Applicables a Su Revision y Pago as a background paper on the proposed additional topics of external debt and credit for the International American Conference to be held in Montevideo.

The officially approved agenda was not as wide in scope as Mexico had wanted it to be, and Mexico hoped to include several additional topics on economics. Presented as the Mexican contribution to the topic, it appears that Mexico had hoped that other countries would prepare similar studies with their views on the subject. The rest of this section is devoted to a summary of the background paper in which Sanchez Ponton examines the historical development and nature of credit before presenting the Mexican proposal for discussion of a moratorium. Thus the section reflects his interpretation of the Mexican debt situation, and is written from his point of view. He stresses that it is not possible to study debt without analyzing its links to the entire economic structure.

According to Sanchez Ponton, the origin of debt is linked to commercial development, but once contracted acquires a life of its own until it is paid off. Experience has shown however, that

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[14]Smith, The United States and Mexico: Revolutionary Nationalism in Mexico, 1916-1932, p. 210, quoting Lamont's personal papers.

debt continues to grow as borrowers contract more loans to pay off existing debt, contributing to its persistent growth. The function of banks is to utilize the surplus which would otherwise remain unproductive.

He further argues that one of the important links between debt and the economy as a whole is through the mechanism of repayment. Debt is normally a contractual obligation. The contract determines a definite term according to which repayment will take place. This requires a monetary system which assures that the obligor will have the means of repayment to satisfy the creditors, implying a certain security of value of money.

Sanchez Ponton states that wealth, profit, savings, and spending grow parallel to debt so that only in "isolated cases of abuse"[15] would debt grow faster than these other factors which provide means of repayment. Thus when repayment is impossible it is a sign of serious problems in the economy as a whole. Inopportune demands by a creditor injure the creditor himself as well as the debtor, worsening the situation and possibly provoking bankruptcy or repudiation.

A fundamental problem of the banking system for Sanchez Ponton is that it fulfills a social function but is run for private good.

> The problem with the system stems, however, from the fact that the banks and the interests which direct them, those which generally predominate in the banking system, work in a way such that the money of the depositors does not go to where they would like it to go, but rather benefits the social sector and interests of the bank directors.[16]

Unfortunately, while it would better for the government to run the banks in the public interest, the job requires experience the public officials lack. On the international level, while at times certain banks appear to be <u>instruments</u> of "dollar diplomacy" or "financial imperialism," at other times <u>they</u> appear to be the determining factors of a governmental policy which protects their interests.

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[15]Luis Sanchez Ponton, <u>Del Mexico Actual: Las Deudas Exteriores: Principios Aplicables a Su Revision y Pago</u> (Mexico: La Secretaria de Relaciones Exteriores, 1934), p. 15.

[16]<u>Ibid</u>., p. 20.

Sanchez Ponton notes that the instability of currency prevents access to credit by firms which need it to carry on day-to-day business. While governments can attempt to resolve this problem internally, they are relatively powerless with international credit because of the scarcity of gold in relation to the volume of debt. This situation is exacerbated by the slowdown in worldwide commerce, preventing many countries from meeting their debt servicing obligations. Any discussion or plan to deal with the debt problem must also address these wider topics.

He argues that strictly budgetary restrictions have forced the suspension of external debt servicing as export earnings have failed to generate sufficient public revenues. If an alternative to gold is not adopted, no alternative to reinvestment as a means of payment will be possible, "... that is to say, the obligation imposed on the creditors of investing in businesses of the debtor country a part or the total amount of all payments due."[17]

Sanchez Ponton points out that although a loan may be legally perfect, it remains subject to an implicit condition -- the material possibility of meeting it. No one is obligated to do the impossible. A problem with the agreements negotiated with the bankers' committees on the foreign debt is that these are based on possibilities; they cannot offer guarantees on future possibilities as they are not based on actual facts. In addition, a country cannot pay its debts if it is not allowed to trade freely, for example, if tariffs prevent it from gaining access to markets for US dollar earnings.

He goes on to say that all of America should be proud of Ambassador Drago's thesis of renunciation of military intervention for the collection of sovereign debt. Luis M. Drago was the Argentine Minister of foreign Relations in 1902. He wrote a letter dated December 29, 1902 to the Argentine Ambassador in Washington commenting on the situation in Venezuela where Germany, Italy, and the United Kingdom were rumbling about non-payment of debt and contemplating some kind of military intervention. The Drago Doctrine states:

> The acknowledgement of the debt, the payment of it in its entirety, can and must be made by the nation without diminution of its inherent rights as a sovereign entity, but the summary and immediate collection at a given moment, by means of force, would occasion nothing less than the ruin

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[17] Ibid., p. 30.

> of the weakest nations and the absorption of their Governments, together with all the functions inherent in them, by the mighty of the earth.[18]

In order to resolve legal disputes without the use of force, an international organization should be established to act as an intermediary in commercial and financial transactions.

In conclusion, Sanchez Ponton presents the propositions the Mexican delegation wishes to present to the conference:

1. Affirmation of respect for legal contracts and non-repudiation of legitimate debt.
2. Reenforcement of the Drago Doctrine to renounce all economic as well as military pressure.
3. Formation of a creditors' organization which could enter into direct negotiations with debtors.
4. Adoption of a general capacity to pay principle which would be incorporated in all debt agreements. It would be established taking into account the commercial balance and price levels.
5. Adoption of a principle of capitalization of payments destined to amortize public debt in cases where no international means of payment exist.
6. Negotiation of a common moratorium.

Puig's Memo

Several months prior to the Montevideo Conference, Mexican foreign Minister Puig circulated a version of the Mexican proposal to the representatives of various other governments to get reactions. The Mexicans hoped this document would stimulate enough interest to warrant the inclusion of the Mexican program on the official agenda. The memorandum, dated September 14, 1933, speaks in broad terms of economic reform on an international scale. Weak countries caught in the web of Wall Street's "bankers' committees" must be given the same opportunities as strong countries to declare moratoria.

> It does not seem right that the countries with greater economic independence or political strength have made or do make decisions which they choose with respect to the moratoria, while the weak countries, fearing the "bankers' committees" have to continue squeezing their rachitic

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[18]Luis M. Drago, Cobro Coercitivo de Deudas Publicas (Buenos Aires: Coni Hermanos, Editores, 1906), p. 12; English translation in Max Winkler, Investments of United States Capital in Latin America (Boston: World Peace Foundation, 1928), p. 57.

> budgets thus practically submerging their own people and sowing the seed of discontent and of social dissolution.[19]

The Conference

Puig opened his official presentation to the Committee on Initiatives on December 5 by stating that he was openly provoking the interests of the superbankers. The superbankers, often acting in disrespect of law and nations, handle credit astutely as long as they are supported by a structure of popular institutions (including these same nation-states they so often disrespect). The science of economics contributes to this structure. People follow it without really understanding it, especially the mechanism of credit. In Latin America it is often thought "that the one who receives credit receives a favor, to be the object of a loan is to be the beneficiary of a splendid manifestation of beneficence..."[20]

The blame for the debt problem was not placed on the ordinary bankers, the banking profession, or even capitalism itself.

> We are attacking, rather, the perverted legal forms, the twisted ideas, the distortion of concepts, of responsibility, and of function which debase the orthodox economic science, which "big business" has been able to convert into principles, treaties and laws.[21]

It is the "international superbankers" who Puig blamed, claiming that they did not suffer at all in the depression. These bankers "fleeced" people of hard earned savings by sellings them bonds, with the bankers earning a high rate of profit.

Puig felt that useful results came about as a result of the mere announcement of the Mexican position. The moratorium of six to ten years was proposed in order to better assure future payments to bondholders and better economic futures for Latin American countries in general. The discussion should move beyond the external debt situation to the idea of credit. A new legal and philosophical concept of credit itself needed to be established.

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[19]Seventh International Conference of American States: Minutes and Antecedents (Montevideo: 1933), 3: 181.

[20]Ibid., p. 157.

[21]Ibid., p. 158.

Puig argued that in order to repay old debts, nations must contract new debt, further fueling the cycle of compound interest. The superbankers have pursued their own interest and concealed the truth from the people to whom they were selling these bonds, not analyzing the economic possibilities for the regular amortization of these loans and bonds. They are all optimistic when a loan or bond is floated in their peddling efforts. They merely need to unload the bonds, not worry about their amortization.

> Thereafter, forced by the necessity to amortize their debts, our people may be obliged to put all kinds of restrictions on international commerce, leading a miserable life, that they may be saved, that they may bear up under the depression thus aggravated and often intensified by the insufficiency of our metal. And when we do not pay our debts, the reasons are not examined, the moral causes are not seen, and we are unfaithful to our sacred pledges.[22]

The resolutions themselves, distributed to all delegates and included in the Minutes and Antecedents, incorporate Sanchez Ponton's concluding points.

The first to respond to Dr. Puig was U.S. Secretary of State Cordell Hull. He began by stating that neither he nor the U.S. government could speak on behalf of either group in the external debt story as presented, as the U.S. Government was not a creditor to any of the Latin American states. furthermore, international bankers as a whole were not supporters of the Roosevelt administration. His analysis of the situation was descriptive, not attempting to place blame.

> What has happened in the United States with regard to these debts is the following: the international bankers and distributing houses have placed loans both in the United States and abroad for large amounts, and after having placed these loans these houses have passed on the respective bonds to private citizens: farmers, laborers, business men, in such a way that it can be said, comparatively, that the chief amount of the debts is not in the possession of the bankers but in the possession of private individuals. The bankers, after having taken their profits, ceased to concern themselves about these loans and went about their ordinary business.[23]

The U.S. government was sponsoring the formation of an independent Bondholder Commission of "disinterested and honest" men to represent the various bondholders, study the situation, and

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[22] Ibid., p. 160.

[23] Ibid., p. 162.

negotiate in a fair manner with the debtor. This commission was not to be connected with the federal Government or the international bankers. In addition, the U.S. Congress had passed a law making the international bankers and distributing houses responsible for negligence for the losses incurred by individuals both internally and in foreign markets.

The next to respond was Saavedra Lamas, the head of the Argentine Delegation. His reaction was the strongest and most critical of all of the responses to the Mexican initiative. His response criticized the Mexicans on two levels. The first was on the nature of the International American Conference. Lamas stated that such a meeting had never dealt with financial issues and that a declaration of anything resembling a moratorium would be tantamount to a collective Ministry of finance for all America. The charter of the Pan American Union would need to be changed for the adoption of such a motion to be in order. Also, Pan Americanism should not destroy financial autonomy. On the second and more substantive level, Argentina stressed that each country had its own situation, and that financial problems differed from country to country.

> Upon what facts would we be able to base the following: "We find ourselves in an unbearable situation in which our poor republics are struggling to face the difficulties that prevent better conditions on the people, and sacrificing their very lives by imposing upon themselves taxes to be accepted patriotically extracting from their very vitals the resources with which to pay foreign creditors and maintain the credit of the nation and we decreed in a Pan American Union that all these sacrifices are useless and should be substituted with a uniform moratorium." Could we say that?[24]

A moratorium would destroy the credit of those countries which had worked hard to maintain it, Lamas argued.

Puig responded by stating that Mexico was only asking for a discussion of the topics, thus Argentina could oppose only the appropriateness of the topic. Discussions on the topic itself should wait until the appropriate committee took the matter up, not within the Initiatives Committee which merely acted as the Steering Committee. Puig added,

> If, then, the objection is the possibility of hurting feelings by merely announcing for discussion the acceptance of a list of topics in which there appears the appalling word which produces cataclysms and is called "moratorium," the word which we dare not pronounce but which occupies all our thoughts with certain fatality, both here in Latin America and in Europe; the word responding to and connecting the very deeds done in the

[24]Ibid., p. 166.

> financial world -- if that word is harmful, Mexico will be glad to withdraw it.[25]

Lamas countered by proposing that a subcommitee be established to study the issue and report back to the Committee as a whole within three days. Brazil and Chile gave supporting speeches for the Argentine proposal while Cuba supported Mexico's original proposal. The Argentine proposal was adopted. The subcommittee was comprised of the delegates from Argentina, the United States, Columbia, Mexico, and Brazil.

The Subcommittee recommended that a High Committee on International finance be created to discuss this worthy topic. A conference convening this Committee was to be held as soon as possible in Santiago or Buenos Aires.

Although that was the end of dicussion of the moratorium topic per se, related topics were discussed in the Economics Committee, and the Mexican proposal did arise from time to time. J. Cipriano Castro, the representative from El Salvador noted his appreciation of the Mexican proposal, stating,

> Sooner or later, we too, with the other Latin American countries must suspend the payment of debts. And here I see clearly that the matter of debts someday must be heard in a Congress. That time will not be later than the time when debtor countries collectively, already in moratorium, are not able to permit Delegates who gather to hold meetings any alternative except to sanction what has already been done by the nations.[26]

Another strong supporter of the discussion of the external debt situation was felipe Barreda Laos, the Peruvian delegate. He presented a report supporting the creation of an International American Bank which would improve the fair financing alternatives for Latin America and defend it against abuses of guarantees and concessions. Addressing the Economics Committee under the heading "Reorganization of the International System of Credit and Currency," he stated:

> The system for contracting large foreign credit operations in Latin America would greatly improve if this international economic and financial institution which we are proposing could be in a position of offering to the countries of Latin America which are still suffering the

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[25]Ibid., p. 167.

[26]Ibid., p. 117.

> consequences of a reactionary and harmful system of international financing, the efficacious and powerful aid of the credit of the associated American countries instead of the burdensome and deplorable conditions at present subsisting.[27]

The Peruvians presented two proposals on external debt. Both were referred to the Conference to be held in Santiago or Buenos Aires. One recommended that confidence be restored to the credit system by the prompt negotiation of a satisfactory solution to the external debt problem. The other went more to the core of the problem:

> Be it resolved: that the financing of foreign loans should be done taking into consideration all factors which contribute to a debtor State's credit, prohibiting the pledging of specific public revenues as guarantees and national concessions for commercial use and privilege that encourage the immoderate use of external credit, committing the capacity and economic and financial autonomy of the debtor nations.[28]

Overall, the excitement about the discussion of the external debt problem was diffused successfully by the Argentine sponsored proposal to postpone discussion of the matter to its own conference.

Press Reaction

Discussion of the debt situation in the Latin American press, especially that of Mexico, preceded the opening of the Conference. La Opinion, a leftist newspaper in Santiago Chile suggested in its December 3 edition that the Chilean delegation present a program including a condemnation of the debts and bonds issued in the United States "on behalf of" the Latin American countries and demanding the publication of an official declaration of non-intervention by the United States.[29]

Prior to the opening of the Conference in Montevideo, the Peruvian delegate felipe Barreda Laos made a presentation aimed at the press, proposing direct negotiations between debtors and creditors and a definitive declaration of principles regulating future debt contraction. These

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[27]Ibid., p. 51.

[28]Ibid., p. 69.

[29]Excelsior, 4 December 1933.

principles should ward against the "genio prestamista" where creditors gain rights to fiscal revenues of Latin American states.[30]

The press reports on the discussion in the Conference either were straight news reports on what was happening or analyses of the Hull-Puig-Lamas discussions. The latter were substantive in some cases and more personal in others. In addition, there was considerable discussion about the new trend in U.S. relations with Latin America.

The New York Times wrote of a "stormy" session under the headline "ABC Group Shelves Mexican Debt Plan" with a subtitle of "Hull Avoids Discussion of the Moratorium Proposed at Pan-American Parley -- Puig Offers to Drop It -- Cuban Delegate, However, Insists He Will Press Issue at Montevideo." Harold B. Hinton, the correspondent, wrote,

> The Secretary of State's long political experience told him Mexico was unlikely to get the necessary two-thirds vote, so he adopted the most conciliatory attitude possible, leaving the Latin Americans to bear the brunt of the opposition.[31]

La Nacion, published in Buenos Aires, mentioned that Puig's presentation changed the nature of the Conference although it was obvious that the proposal would not be approved.

> It has been seen that the Mexican proposal is not in an environment which would allow it to prosper. The high production countries with market power prefer to manage their debts without mixing themselves up with those who need the help of the American Community, resolving their difficulties with Bilateral Treaties and not wanting to incorporate themselves into a group which would diminish their stature and prestige abroad. The Mexican proposal was buried in a Subcommittee, probably to resurface in an evasive report.[32]

The opposite view was presented in an editorial in the Digesto Latinoamericano of Panama. It stated that the ideas that Argentina, Brazil, and Chile collaborated with the US to counter the Mexican proposal and that the planned conference in Santiago was merely a pretty funeral for the proposal was a sign of Latin paranoia. This newspaper felt that the US, in the person of

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[30]La Prensa, 4 December 1933.

[31]The New York Times, 6 December 1933.

[32]La Nacion, 6 December 1933, reprinted in Memoria General y Actuacion de la Delegacion de Mexico (Mexico: La Secretaria Relaciones Exteriores, 1934), 3: 280-281.

Secretary Hull, was sincere in its desire to discuss the debt situation once things settled down in the US's period of experimentation.[33]

Puig was hailed as a hero in several articles. Domingo Melfi, an Associate Editor of La Nacion of Buenos Aires, wrote on "Mr. Hull y el Senor Puig Casauranc." The article gave his impressions of the Montevideo Conference, especially the reaction of the crowd to these two men. He lamented that no one listened to speakers from small countries, while everyone, even the usher, strained to hear Hull's monotonous voice. Puig is presented as the opposite of Hull, representing humanity and the voice of rebellion.[34] Puig was also hailed as a spirit calling for a radical social and economic transformation by Vanguardia of Rio de Janeiro, which reported on the rumors in New York that the Montevideo Conference was trying to destroy Wall Street, but noted that the superbankers had the power so would not have to worry: sooner or later, however, reform of the system would come, and Mexico would be remembered for its intrepidness and the elegance and energy of Puig.[35]

Why Mexico?

The Mexican Revolution took a strong vocal stand against foreign capital, yet Mexico was still subject to the perceived tyranny of the ICBM (although even under its many times renegotiated agreements, it was still habitually in default). It viewed itself as the conscience of Latin America, speaking for the weak nations which could not voice these heretical thoughts because of the power which the criticized had over them. Mexico believed that the power of the banker's committees was an affront to its sovereignty, and that the Latin debtors should jointly rebel against these committees. The lack of legal framework for resolving such problems needed to be remedied, so that non-partisan mediators could work towards fair settlements. The Mexicans stressed that they didn't want to injure the bondholders, instead directing their wrath towards the bankers who earned a tidy profit on the sale of the bonds and then washed their hands of the matter.

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[33] Digesto Latinoamericano, 29 January 1934, reprinted in Memoria General (Mexico), 3:427-428.

[34] La Nacion, 17 December 1933, reprinted in Memoria General (Mexico), 3:283-287.

[35] Vanguardia, 30 April 1934, reprinted in Memoria General (Mexico), 3:325-327.

Mexico believed that the matter of debt and credit should be discussed in both philosophical and practical terms given the situation in Latin America. It felt that Argentina's objections to discussion of the topic were completely ridiculous. Argentina, on the other hand, did not want its good name and painfully acquired credit standing tarnished through association with any type of uniform moratorium. In addition, the Argentines still followed the lead of Great Britain. The Americans who financed 71% of Mexico's external long term public debt were seen as much more flexible than the British who dominated Argentine commerce and finance. The British financed 67% of Argentine external long term public debt (1935 figures).[36] The Argentines formalized their relationship with England with the signing of the Roca-Runciman Pact in 1933, ensuring special status for British imports in Argentina and continued debt payments.

The tarnishing of image argument also seemed to be important to Brazil and Chile. However, both countries had payments problems and, once negotiations were underway, were non-conciliatory. Their negotiations were the most protracted of all the Latin American countries, as well as being the most favorable to the debtor.[37]

Good Neighbor Policy or not, the U.S. was still the power of the region, and the smaller nations were afraid not to follow its lead. Whatever the official announcements, the US government did not take a non-biased stance on the revolutionary activity in Cuba at the time the conference was meeting. In addition, its interventionist history was legendary in Latin America. Could the US position have changed that much? Secretary Hull had announced the sponsorship of the U.S. government for the formation of a bondholders commission which was to be "formed of the most honest and disinterested men that could be found in the country."[38] This was similar, in principle, to one of the Mexican propositions. However, it was a far cry from the in depth philosophical discussion of credit which the Mexican had hoped for.

Real discussion of external debt and credit was postponed until the "to be held" conference in Santiago. The conference was never held.

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[36]United Nations Economic Commission for Latin America, External Financing in Latin America (New York: United Nations, 1965), p. 28.

[37]See Marilyn E. Skiles, Latin American International Loan Defaults in the 1930s: Lessons for the 1980s? (New York: Federal Reserve Bank of New York), April 1988; and Foreign Bondholders' Protective Council Annual Report's, 1934, 1935, 1936, 1937, 1938, 1940, 1940-1944.

[38]Seventh International Conference of American States: Minutes and Antecedents, 3:162.

Why Mexico then, but not now? Several possible hypotheses may be put forth. The obvious difference in the structure of debt holding and international institutions supporting those holding debt has been explored in this paper. I conclude that these differences offer one compelling explanation. The international creditors present a relatively unified negotiating force with which Mexico, like all debtor countries, must deal. In 1933, in contrast, bondholder groups were disorganized, with the ICBM the exception rather than the rule. Today, the position of the creditor groups is strengthed by the international financial institutions such as the IMF, which did not exist in the 1930s.

Additional possibilities which I believe will offer further insight, and which I am investigating in my current research include domestic economic and political changes within Mexico (i.e., the current ascendence of economic and political groups whose interests lie within the international political economy rather than with a domestically oriented focus prevalent during the early 1940s); and changes within the economic and political relationship between Mexico and the United States, itself a result of domestic changes in both countries and the international environment.

## Conclusion

What does this debate tell us that is useful in analyzing the current debt crisis? To start with, many of the underlying causes of the two crises are similar: heavy competition among bankers for the business, lowering of credit standards, excessive borrowing, unfavorable terms of trade, lack of access to markets for Latin American exports, high cost of credit (interest rates and commissions), and recession in the developed countries. More importantly for the purposes of this paper, we see that many of the solutions being proposed today have been mentioned before. These include: adoption of a general capacity-to-pay principle taking into account trade balances and relative prices; improved, assured access to markets for Latin American exports; more reasonable interest rates and fees; and negotiation of a common moratorium with all Latin American countries banding together, admitting a joint structural problem, with a substantial grace period of 6 to 10 years without any amortization payments. Another similarity is that the concept of non-repudiation and respect for legal contracts also remains. Latin American nations say they have been forced to suspend debt payments due to lack of funds, not lack of desire to pay.

The structure of the debt is a major difference between the current crisis and the 1930's, as is the presence of the IMF. Bankers were relatively unconcerned in the 1930's, as they held few of the bonds and had already made their profits. The small bondholders were not organized and did not have the expertise or political clout to enforce a quick solution. The bankers now have their survival at stake. They also have an international structure, including the IMF, which reenforces their power and the terms of the renegotiated agreements.

Another difference is that all the Latin American nations are in approximately the same precarious condition, whereas in 1933 Argentina enjoyed a substantially higher credit rating than the other countries with debt, and Venezuela had the distinction of having no external debt. Although Colombia in the 1980s is in a better position economically, it too has suffered in international credit markets as a result of the contagion effect (not to mention concern over the societal and political effects of its principal (illegal) exports). The dominance of the United States is continent-wide, with the European bankers having secondary importance. This may change in the near future with the increased importance of Japan as an international creditor, but during the early and mid-80s, no one can dispute that the U.S. banks and government set the tone and pace of the discussion and agreements on the debt topic.

The similarity of the analysis of the current debt problem with that of the 1930s is striking. The Mexicans hoped that all their American neighbors would join in a frank discussion of the problem of the time as well as a more philosophical discussion of credit. A moratorium was one of many ideas which would have been discussed. In late 1982, Celso furtado suggested a conference of the the major debtors "to define a common doctrine, and the minimum acceptable terms for a renegotiation," echoing the same idea.[39] Several Latin American wide conferences have been held in the early and mid-1980s including several meetings of the Consenso de Cartegena and discussions on debt within SELA and the Group of Eight. However, the problems with a joint approach remain as well, with the larger countries, with more relative power with respect to the banks, not anxious to join in a continental group which would decrease their individual power. Argentina, Brazil, and Mexico know that they have substantial power in extracting favorable deals from the modern bankers' committees, especially as quarter-ends approach. These conferences have made proclamations stressing the need for continued funding,

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[39]"How the Debtors Can Forge a New International Deal," South Magazine, December 1982, pp. 65-66.

understanding on the part of creditors, and better terms for new loans; and against the conditionality attached to the loans. They have requested that creditors not make demands to transfer unreasonable amounts abroad in the form of debt service payments and take ability to pay into account. few debtor governments have raised basic philosophical objections to debt and repayment although groups of their constituents increasingly do so. The spirit of Sanchez Ponton has not disappeared. As economic options continue to shrink, the political issues intensify.

The crisis in the 1930's caused Latin American governments to question the system of credit and traditional economics. The 1980's crisis, via IMF programs requiring substantial sacrifices on the part of a country as a whole, is causing the same questions to arise. If the fundamental questions remain unaddressed this time we should not be surprised, indeed we should expect, to see traditional and especially IMF style economics come under even more serious scrutiny and rejection in part or in whole.

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